Certificate of Service

This is to certify that on the 23rd day of December, 2004, I did serve the within document, by first class mail upon:

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Executed under penalty of perjury this 23rd day of December, 2004.

Neil R. Gallagher

Neil R. Gallagher

U.S. Department of Justice
United States Attorney
District of New Jersey
Civil Division

970 Broad Street, Suite 700
Newark, New Jersey 07102

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December 23, 2004

Hon. Dickinson R. Debevoise
Judge, United States District Court
Dr. Martin Luther King, Jr. Federal Building
and Courthouse
50 Walnut Street
Newark, New Jersey 07102

Re: Newark Coalition for Low Income Housing et al. v. Newark Redevelopment and Housing Authority,, et al.
Civil Action No. 89-1303
Hearing of January 10, 2004

Dear Judge Debevoise:

Enclosed is a copy of the memorandum of the United States Department of Housing and Urban Development regarding the NHA's Homeownership Program. The same was electronically filed today.

Respectfully submitted:

CHRISTOPHER J. CHRISTIE
United States Attorney

By: Neil R. Gallagher
NEIL R. GALLAGHER
Assistant U.S. Attorney

cc:

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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

NEWARK COALITION FOR LOW INCOME HOUSING, et al.	:	Hon. DICKINSON R. DEBEVOISE
Plaintiffs,	:	Civil Action No. 89-1303
v.	:	
NEWARK REDEVELOPMENT AND HOUSING AUTHORITY, et al.	:	
Defendants.	:	

BRIEF OF THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT REGARDING THE NHA'S HOMEOWNERSHIP PLAN

On the Brief:

NEIL R. GALLAGHER
Assistant U.S. Attorney

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TABLE OF AUTHORITIES

Statement of Facts

The Newark Housing Authority developed a Homeownership Plan for Mt. Pleasant Estates, NJ 2-51 on October 23, 2000. The NHA's proposed Homeownership Plan was submitted to HUD's Special Applications Center ("SAC") for review and approval. By letter dated February 8, 2001, the SAC approved the NHA's Homeownership Plan. The Section 5(h) Implementing Agreement was entered into on February 14, 2001 between HUD and the NHA. On March 3, 2003, the SAC received the NHA's revised 5(h) Homeownership Plan for Mt. Pleasant Estates, NJ 2-51. By letter dated April 9, 2003, the SAC stated that it was "pleased to inform you that your request to incorporate into your previously approved Plan, provisions that enhance the efficiency of the program and promotes affordable housing, is hereby approved." The revised plan and approval are attached hereto as exhibit A. The Implementing Agreement, the original plan and the approval are appended as exhibit B.

The Plan[1] indicates that the Plan "provides a foundation for an ongoing homeownership program designed to provide economic opportunity for low-income families participating in public housing programs. . . The Newark Housing Authority (NHA) initial plan is to substantially rehabilitate and sell the 42 semi-attached townhouses that comprise the public housing site of Mt. Pleasant Estates (NJ 2-51). . . . The site was built during 1993/4 as market rate homeownership condominiums. The site was purchased by the NHA and placed

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[1]References are to the amended plan at exhibit A, unless otherwise indicated.

under an Annual Contribution Contract (ACC) in 1994." *See* Plan at page 4, ¶¶ 1 and 2. The units seem to be very attractive properties, see the description at pp. 5-7 of the plan. Substantial repairs are being done, see pp. 7-9.

The Plan further indicates that Mt. Pleasant dwelling units will be offered to the existing 41 occupants. At the time the Plan was drafted, the appraised fair market value of the apartments was approximately $80,000 to $90,000, but that because the units would be sold to qualified low-income families, the units would be sold for a maximum of 60% of the appraised value at time of sale, with the price being determined by the family's gross household income. *See* p. 4, ¶5.

At the time the Plan was drafted, it would appear that between five and seven existing occupant families would not purchase their unit. *See* p. 11, ¶8.

The Plan outlines the resale restrictions placed on the sales. That is, the purchaser cannot sell a property immediately after taking occupancy without incurring financial penalties. This prevents "flipping" of properties to obtain windfall profits. The purchasers must use the property as their primary residence for 10 years before all sales proceeds will go to them. See Plan at page 14, § 6.

The Plan provides, among other things, that homes sales will be made to residents that have completed homeownership training and have also demonstrated homeowner capability. *See* Plan at page 15, §8. Further, the Plan states, "No current resident will be involuntarily displaced from the unit it lawfully occupies for the purposes of providing homeownership opportunity. *See* Plan at

page 15, § 10. The Plan also identified uses of the sales proceeds from the sale of homeownership units. These are "[t]o ensure the success of the NHA's Homeownership Program and to protect the interests of the homeowners. The use of proceeds will include funds to establish the plan; cost associated with planning, training, and providing technical assistance to potential purchasers; costs to administer the program; costs associated with non-routine maintenance/emergency loan reserve, and the closing, etc. The construction or acquisition of dwellings for sale to low-income families. Other such public housing purposes that are approved by HUD." *See* Plan at pages 16-17, §11.

One of the provisions of the Implementing Agreement is that sale proceeds will be used in accordance with 24 C.F.R. § 906.15.[2] *See* paragraph 3.1 of Implementing Plan. The regulatory provision in effect at the time the Implementing Plan was entered into provides that sale proceeds "be retained by the PHA and used for housing assistance to low-income families ..." 24 C.F.R. § 906.15(a).

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[2] Part 906 of 24 CFR was revised effective April 1, 2004. The new regulation states: "Any existing Section 5(h) or Turnkey III homeownership program continues to be governed by the requirements of part 906 or part 904 of this title, respectively, contained in the April 1, 2002, edition of 24 CFR, parts 700 to 1699. The use of other program income for homeownership activities continues to be governed by agreements executed with HUD. 24 CFR 906.3(a) (2004). " Accordingly, any regulations cited herein reflect the regulations in effect in 2002 inasmuch as the Homeownerhip Plan at issue was approved by HUD in 2001.

Argument

The Homeownership Program Does Not Violate the Settlement Agreement

The statutory authority for a public housing authority ("PHA")to conduct a homeownership program is found at 42 U.S.C. § 1437z-4. The statute authorizes a PHA to "carry out a homeownership program in accordance with this section". 42 U.S.C. § 1437z-4(a). The program must be approved by the Secretary. *Id.* The statute was substantially amended in 1998, including the provision that the disposition requirements for a PHA do not apply to a homeownership program, 42 U.S.C. § 1437z-4(l). The regulations are set out at 24 C.F.R part 906. AS was set out in the statement of facts and referenced exhibits, the NHA has sought and gained approval of is plan by the Secretary.

A review of the settlement agreement-the original 1989 agreement, the 1996 amended agreement and the 1999 amended agreement have failed to reveal a provision that can fairly be said to prohibit the homeownership program that NHA has proposed and HUD has approved. Under these circumstances, NHA should retain the discretion to propose such programs in accordance with the statute.

A settlement agreement "is a contract subject to the rules of contract interpretation." *Pennwalt Corp. v. Plough, Inc.*, 676 F.2d 77, 79 (3d Cir. 1982). Plaintiffs cannot argue that NHA is barred from conducting the program unless it is a part of the agreement reached by the parties in this case. The Court should look to the agreement itself for the meaning of the obligations undertaken by NHA:

> *** in determining the meaning of the [settlement agreement's] provisions our first resort is to the four corners of the agreement "The instrument must be construed as it is written, and not as it might have been written had the plaintiff established his factual claims and legal theories in litigation." The agreement memorializes the bargained for positions of the parties and should be strictly construed to preserve those bargained for positions.

Halderman v Pennhurst State School and Hospital, 901 F.2d 311, 319 (3d Cir. 1990), *cert. den* 498 U.S. 850 (1990). (Citations omitted). This approach recognizes that a negotiated agreement is the result of give and take in the settlement process and that each of the parties has given up something that it might have won in litigation. In enforcing such an agreement the Court may not impose terms beyond those agreed to by the parties. *Fox v. United Sates Department of Housing and Urban Development*, 680 F.2d 315, 322 (3d Cir 1982).

It may be that plaintiffs will argue that the purpose of the settlement agreement was to provide low income rental housing. The settlement agreement does not have a purpose; rather as the Supreme Court noted in *United States v Armour & Co.*, 402 U.S 673, 682 (1971).

> Consent decrees are entered into by parties to a case after careful negotiation has produced agreement on their precise terms... Naturally, the agreement reached normally embodies a compromise; in exchange for the saving of cost and elimination of risk, the parties each give up something they might have won had they proceeded with the litigation Thus, the decree itself cannot be said to have a purpose; rather the parties have purposes, generally opposed to each other, and the resultant decree embodies as much of those opposing purposes as the respective parties have the bargaining

> power and skill to achieve For these reasons, the scope of a consent decree must be discerned within its four corners, and not by reference to what might satisfy the purpose of one of the parties to it.

Looking to the four corners of the agreement together with its amendments, there is no prohibition for the homeownership program and the Court should not read one into the agreement.

Conclusion

The Court should allow the program to be conducted by NHA. The program is relatively small considering the size of the NHA, which has in excess of 8,000 rental units. The program has many benefits for the participants, which they may not be able to otherwise enjoy.

Respectfully submitted,

CHRISTOPHER J. CHRISTIE
United States Attorney

Neil R Gallagher

By: Neil R. Gallagher
Assistant U.S. Attorney

Exhibit A

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Special Applications Center
77 W. Jackson Blvd., Room 2401
Chicago, Illinois 60604-3507
Phone: (312) 886-9754 Fax: (312) 886-6413

OFFICE OF PUBLIC HOUSING

APR - 9 2003

Mr. Harold Lucas
Executive Director
Newark Housing Authority
57 Sussex Avenue
Newark, NJ 071103-3992

Dear Mr Lucas:

On March 3, 2003, the Special Applications Center (SAC) received the Newark Housing Authority's (NHA) revised Section 5(h) Homeownership Plan (Plan) for Mt. Pleasant Estates, NJ002051 The original Plan was approved on February 8, 2001

Material changes to your previously approved Homeownership Plan included revisions to purchaser eligibility and selection, affordability and financing, and protection of non-purchasing families. These revised changes were made after consultation with the residents, members of the banking community, and other stakeholders.

I am pleased to inform you that your request to incorporate into your previously approved Plan, provisions that enhance the efficiency of the program and promotes affordable housing, is hereby approved.

A copy of this letter has also been mailed to the HUD New Jersey State Office.

The Department wishes you continued support in implementing your Homeownership Program. Should you have any questions regarding this matter, please contact Rachel Richardson at (312) 886-9754, Extension 2153.

Sincerely,

Ainars Rodins

Ainars Rodins, P E.
Director

Revised
Homeownership Plan
for the
The Housing Authority
of the City of Newark

(Mt. Pleasant Estates N.J. 2-51)
October 4, 2002

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Executive Summary

The Homeownership Plan described through this document establishes the Newark Housing Authority's homeownership initiative. This plan provides a foundation for an ongoing homeownership program designed to provide economic opportunity for low-income families participating in public housing programs It sets out the policies and standards under which the Authority will operate its homeownership initiative. This plan also packages the first dwelling units that will be sold to qualified buyers. The proposed homeownership initiative is subject to Section 32 and Section 5h of the United States Housing Act of 1937 (i.e., rules that guide the sale of public housing subject to an Annual Contributions Contract), as implemented by 24 CFR 906.

The Newark Housing Authority (NHA) initial plan is to substantially rehabilitate and sell the 42 semi-attached townhouses that comprise the public housing site of Mt. Pleasant Estates (NJ 2-51). The site is located in the North Ward of the City of Newark. The site was built during 1993/4 as market rate homeownership condominiums. The site was purchased by the NHA and placed under an Annual Contribution Contract (ACC) in 1994. The development is fully occupied (less one) at this time.

The Authority's plan for implementing the homeownership initiative is to extensively rehabilitate all 42 units prior to title transfer to the existing, eligible tenants. Funding for the substantial rehabilitation is provided through the Comprehensive Grant Program and the homeownership administrative activities will be funded through sales proceeds The budgeted cost of the described homeownership initiative is $ 4,186,424 or approximately $99,676 per unit.

Fee simple or condominium title will be transferred to eligible homebuyers who can afford to purchase in the conventional manner, or a lease to purchase program will be offered to homebuyers that otherwise qualify for homeownership. Unit renovation and title transfer is to be completed by summer of 2003.

Mt. Pleasant dwelling units will be offered to qualified home buyers for a maximum purchase price of 60% of the appraised value of the unit at the tile of sale. The purchase price will be determined for each unit using no more than 35% of family's adjusted household income toward homeownership costs at the time of sale.

HUD's criteria for homeownership plan approval are workability, legality and documentation. Adhering to these criteria will ensure HUD's approval of the program and contribute to its success. An important, but secondary criteria is that the program is designed to provide homeownership opportunities that are affordable to the greatest amount of tenants currently residing in the units. Therefore, the homeownership program is designed to offer a broad range of financial assistance and purchase price discounts to ensure low-income affordability.

The homeownership plan framed by this document is workable with sound potential for long-term success. Financial viability, including the capability of the purchaser to meet the financial obligations of homeownership is a fundamental program requirement. The plan is consistent with law, including the requirements of Section 32 and Section 5(h), as regulated by 24 CFR 906, and other applicable local, State and Federal statutes, regulations and existing contracts. Finally, the plan clearly and completely describes the homeownership program. This document serves as the foundation for program approval by HUD, implementation and ongoing operation.

The homeownership plan is accompanied by an appendix that contains exhibits to aid in the HUD approval process. It also provides the requisite supporting documentation including the property value estimate, workability statement and legal opinion. The Plan was prepared with the benefit of low-income housing resident collaboration. It incorporates their views and recommendations. Finally, the NHA Board of Commissioners has endorsed the plan.

1.0 Property Description

The NHA Homeownership Plan envisions the sale of 42 newly renovated public housing, semi-detached townhouses referred to as the Mt. Pleasant Estates. The townhouses built for the retail market are contained within 5 buildings that sit on 1.88 acres of land. The market rate development was substantially complete around 1990, but sat mostly unoccupied due to construction financing problems. The NHA acquired the property in 1994

Mt Pleasant is located in the North Ward. The neighborhood is called Mt. Pleasant/Lower Broadway The site is bounded by Gouverneur Street to the north, Mt. Pleasant Avenue to the east, Clark Street to the south and Broad Street to the west. Mt. Pleasant nestles itself in a small residential strip sandwiched between McCarter Highway and Broadway both being major arteries. To the east of Mt. Pleasant is a primarily industrial neighborhood. The neighborhood becomes more residential to the north and east of this development. Broadway acts as a dividing line between the Mt. Pleasant neighborhood and its adjacent neighbors to the west.

Generally speaking, the Mt. Pleasant three-bedroom, one and a half bathroom townhouses are very versatile and therefore marketable. The units have basements providing added advantages for storage and/or convertible to living space. The Mt. Pleasant units can accommodate a variety of family structures that are particularly desirable to single parent families with two children of the opposite sex, married couples with families of up to four children, and three generation families

Further identification of the proposed homeownership property is summarized below:

BUILDING	ADDRESS	NUMBER OF UNITS	BED ROOMS	BATH ROOMS	BASEMENT
Building 1	21-35 Gouverneur Street	9	3	1.5	Yes
Building 2	215-231 Mt. Pleasant Avenue	9	3	1.5	Yes
Building 3	233-247 Mt. Pleasant Avenue	8	3	1.5	Yes
Building 4	222-230 Broad Street	7	3	1.5	Yes
		2	2		
Building 5	240-252 Broad Street	7	3	1.5	Yes
Total Units		42			

The site was originally designed for market rate condominium ownership and not as public housing rental units. The development consists of (5) row type buildings. The three-bedroom, one and a half bathroom configuration design is consistent with all but two units (i.e., building 4 has two units that are two-bedrooms). The units are spacious (i.e., 1,500 sq. ft. living space excluding basements) have ample storage and individual basements. A site plan is included as Attachment 1, and floor plans are included as Supporting Documentation.

Each apartment shares a demising wall. The general construction is wood frame with masonry veneer. The foundation walls are concrete block. The roof construction is comprised of prefabricated roof trusses, plywood sheathing, building paper, and asphalt shingles. Wall construction is comprised of 2 x 6 wood framing, plywood sheathing, and several different finish materials such as 4" veneer brick, sprayed cement plaster finish, and stucco stone face finish. Floor framing consists of prefabricated web joists, plywood sheathing, and either carpeting or vinyl flooring.

The units have individual gas fired hot air furnaces with individual hot water heaters. Town homes are individually metered for all utilities. The units are not centrally air-conditioned but can be converted.

The interior finishes are painted gypsum wallboard for walls and ceilings. Some units have wood paneling around existing fireplaces and the chimney. (Note: not all units have fireplaces). The floor finishes consists of wall-to-wall carpeting, vinyl sheet flooring and 2" x 2" ceramic tile flooring in the bathrooms. Kitchen cabinetry is raised wood panel. Trimming around the windows, interior doors and floor base are wood.

Each unit has a private deck and green space. The townhouses do not have garages, but they do have individual parking pads in the rear with gated access to rear yards. Additional site and unit amenities and features include:

- Large spacious rooms particularly, living, dining and kitchen areas.
- Front and rear entrances.
- Private rear yards and elevated wood decks.
- Individually enclosed storage sheds located in rear yards for residents on Governeur Street.
- Operable fireplaces with decorative wood paneling and mantelpieces in many units.
- Sliding glass doors that allow ample light into kitchens and access to elevated wood decks.
- Mirrored glass sliding closet doors.
- Full basements with washer and dryer hookups (unfinished though easily adapted to living space).
- Wood vanities and Hollywood bulb lighting in bathrooms.
- Wall to wall carpeting.
- Wood balustrade handrails.
- Wood paneled interior doors.
- Brass plated porch lights.
- Gas Stoves.

2.0 Repair or Rehabilitation

The NHA has prepared a modernization plan for the site that will address current structural and code violations. The repair and rehabilitation plan is finalized and all work is to be completed by the end of summer of 2003. The work will be extensive. It includes repairs to remedy deficient design and construction, work to increase long-term affordability, and amenities to improve the quality and marketability of the units

The physical condition of the property to be transferred will meet the more stringent criteria of local code or HQS standards for housing quality. The units were built in 1993/4 and meet the lead based paint standards in accordance with subpart C of 24 CFR 35. Accommodation for accessibility features for the disabled will be made, as appropriate, in accordance with 24 CFR parts 8 and 9.

Modernization is to be completed in five phases (i.e., sequentially, building by building). The estimated budget for repair and rehabilitation is approximately $99,677 per unit for a total of $4,186,424 Repair and Rehabilitation will be funded through the NHA's Capital Grant Program. Attachment 2 presents a unit-by-unit Repair and Modernization Schedule.

The following list is a summary description of the major work planned for the site:

- Existing windows are to be removed and replaced to remedy poor window quality and sealant deterioration.

- Asphalt roofing shingles are to be replaced throughout including the shed roofs located in the rear of each unit.
- Roof flashing, including boots at vent stacks are to be replaced along with damaged roof trusses.
- Existing perforated vinyl soffits are to be removed and replaced.
- Exterior finishes (i.e., brick veneer, sprayed cement plaster and stone stucco) are experiencing various degrees of deterioration and failure. The brick veneer shows severe signs of cracks and failure due to expansion and settlement. It is to be replaced with new masonry veneer to match the existing. Other remedies include shoring, replacement of steel angles, through-wall flashing and masonry; sealing all open cracks resulting from expansion with an elastomeric sealant; and the cutout and re-pointing of all loose and deteriorated mortar joints. The cement plaster that is sprayed directly onto the sheathing at the building facade is showing signs of discoloration, and cracking. The cement plaster finish is to be replaced.
- Perimeter walls with cement plaster showing signs of cracking due to settlement are to be repaired.
- Front porches are to be completely rehabilitated. Flashing at the interface between the stoop landing and the door threshold is to be replaced.
- The extensive porch work that needs replacement or repair will trigger the agency into replacing most of the handrails.
- Entry and screen doors and their wood framing are to be removed and replaced where needed. The existing decorative door surrounds are to be painted.
- Interior floors are experiencing deflection in some units. Strengthen deteriorated floor structure where necessary. Shore floor structures where required and apply new sheathing and underlayment.
- All decking is to be sealed with a semi-transparent deck stain.
- All ductwork, flues and grilles will be replaced.
- Wood stairs and handrails leading to the basements are to be replaced where necessary.
- Kitchen countertops and backsplashes are to be replaced.

The described sale and occupancy standards will be met as a condition for property conveyance. Under no circumstances will the homebuyer be required to accept a home that does not meet the above-described standards prior to title transfer.

3.0 Purchaser Eligibility and Selection

All candidates interested in homeownership are required to complete a homeownership application. Each complete application will be time and date stamped as received by the Authority. The order of application receipt notwithstanding, the eligibility and preference factors defined herein will determine selection order

Complete applications are to be screened for eligibility. Candidates must meet the following eligibility criteria:

- Qualify as a family assisted by a public housing agency, a low-income family, or an entity formed to facilitate a sale by purchasing units for resale to low-income families. In the case of the latter, the purchasing entity must resell all units to low-income families within five years from the date of acquisition of the unit(s).

- The owner must occupy the unit as its principal residence.

- The owner must be current in rent payments and must not be rent delinquent in the six months prior to purchase.

- The owner's family must qualify as a low-income or an assisted family at the time of purchase in the case of a contract to purchase existing housing; at the time the agreement is signed in the case of a lease to purchase for housing to be constructed; and at the time the contract is signed in the case of housing to be constructed.

- At least one member of the family must be gainfully employed and show evidence of regular income or, in the case of a lease to purchase conveyance, be enrolled in a job-training program.

- Family members cannot have been convicted of drug related or violent criminal activity during the previous three years.

- The owner must be creditworthy.

- The family must get utilities turned on in the name of the head of household.

- The owner must be capable of assuming the financial obligations of homeownership using no more than 35% percent of its adjusted income for housing related expense for homeownership, taking into consideration the unavailability of public housing operating subsidies and modernization funds after homeownership conveyance. The applicable must meet the following threshold:

  - Applicant's payments for principal, interest, insurance, real estate taxes, utilities and maintenance cannot exceed 35% of adjusted income as defined in accordance with Paragraph (5) of section 3(b) of the 1937 Housing Act plus any subsidy that will be available for such payments; or, if the homeownership unit is so designated, the applicant agrees to participate in a Lease to Purchase Program and meet the affordability criteria within a 3-5 year timeframe.

  - Applicant must be able to pay amounts required for closing, such as the down payment, title transfer, mortgage fees, etc., that are chargeable to the purchaser. At a minimum the family must contribute an amount equal to 1% of purchase price towards the required down payment from resources of the family other than grants, gifts, contributions, and similar amounts.

Note . Candidates who fail financial lease compliance screening will be notified in writing and given a reasonable period of time to remedy the deficiency. Extensions to the agreed upon remedy period will not be offered.

- Public housing families must be in compliance with their public housing lease obligations for a period of not less than six months prior to contract to purchase or lease purchase conveyance unless a lesser period of time has elapsed since the beginning of public/assisted housing participation. Lease compliance includes payment of rent and other charges, reporting all income that is pertinent to determination of rental charges, and meeting HQS/housekeeping responsibilities.

Applicants who meet the eligibility criteria are to be selected in the following order of preference:

- For occupied public housing units that become designated for homeownership, the resident(s) occupying that unit, if any, regardless of direct transfer from the NHA or from an organization serving as a conduit for sales. The residents right of first refusal is guaranteed under Section 32 of the 1937 Housing Act as implemented through 24 CFR 906.

- For vacant units that become designated for homeownership:

  - First preference is given to eligible public housing program participants who have completed a self-sufficiency program or have completed a job training program and meet the minimum requirements for homeownership.

- In the event that a family qualifies for a split of household based on NHA guidelines for being under-housed in accordance with the NHA's Admission and Continuing Occupancy Policy (ACOP), the NHA will allow the family to have a preference to purchase a vacant unit, subject to the preference set forth above for families who have completed a self-sufficiency or job training program. If there are two families that have equal preference for a split, preference will be based on the date that the resident requested the split.

- Third preference for vacant unit will be given to all other NHA qualified residents.

No other preferences are available for the homeownership program. Eligible homeownership candidates (i.e., low-income families) will be ranked in order of date and time stamped receipt of application, subject to the preferences set forth above.

4.0 Appraised Fair Market Value and Marketability

The sales price of units will be based on their appraised fair market value after the proposed repairs and renovations are completed. The fair market value of individual homes prior to sale will be established individually by an independent appraisal.

According to the 1999 study prepared by Baris & Zimmer the median housing value in Newark was approximately $70,000. Sales prices for condominiums sold in Newark between 6/1/96 and 5/30/98 were approximately $80,000. In 1993, the NHA purchased all 42 units for $3,359,000 or $80,000 per unit.

The marketability of these units to the families targeted by NHA for homeownership is a key consideration in the feasibility of the Mt. Pleasant Homeownership initiative. Marketability considers both the interest and the income levels of the families that are currently residing in the Mt. Pleasant units and the broader population of the low-income family market. It also considers the value of the units based on competitive pricing practices.

Based on the homeownership survey completed in March 2000, average site income is approximately $27,500. Thirty-one of the families are working. Thirty-two of the families (78%) earn in excess of $15,000 per year. Twenty-six families (63%) earn over $20,000 per year. Only three families earn less than $10,000 per year. Twenty-seven occupant families are interested and are income qualified to purchase. Seven families are interested and may qualify under a lease to purchase conveyance. Seven income-qualified families are not interested in purchasing or are undecided. One unit is vacant and will be filled with an income qualified and interested family.

Based on the above data supported by signed data sheets, we can expect between 5 and 7 families not purchasing their units. There are hundreds of interested, income qualified homeownership applicants awaiting an opportunity to purchase a unit at Mt. Pleasant Estates if one should become available.

Should the unit not be available for sale because the existing occupant does not voluntarily relocate, the Authority will either designate one of the 5 buildings as public housing rental units or convert the site to project based section 8 and convey the property to the condominium association. Should the section 8 conveyance take place, resale restrictions will be put in place to ensure the long-term protection of non-purchasing families and guard against windfall profits.

5.0 Affordability and Financing

The owner must be capable of assuming the financial obligations of homeownership using no more than 35% of its adjusted income for housing related expense for homeownership, taking into consideration the unavailability of public housing operating subsidies and modernization funds after homeownership conveyance. The applicable must meet the following threshold:

Applicant's payments for principal, interest, insurance, real estate taxes, utilities and maintenance cannot exceed 35% of adjusted income as defined in accordance with Paragraph (5) of section 3(b) of the 1937 Housing Act plus any subsidy that will be available for such payments; or, if the homeownership unit is so designated, the applicant agrees to participate in a Lease to Purchase Program and meet the affordability criteria within a 3-5 year timeframe.

Applicant must be able to pay amounts required for closing such as the down payment, title transfer, mortgage fees, etc. that are chargeable to the purchaser. At a minimum the family must contribute an amount equal to 1% of purchase price towards the required down payment from resources of the family other than grants, gifts, contributions, and similar amounts.

To ensure affordability for low-income families our model will consider the full cost of homeownership for affordability determination. The model is described in the following paragraphs.

Mt. Pleasant dwelling units will be offered to qualified home buyers for a maximum purchase price of 60% of the appraised value of the unit at the time of sale. The NHA will determine one purchase price for all the homeownership units. Finally, the silent second mortgage ensures against windfall profits.

In addition to a purchase price deduction, the Authority expects to negotiate below market rate, fixed mortgage financing equal to two or three points below current rates (i.e., local lending institutions offer 7% fixed rates, that include mortgage insurance, to qualified low income families). Homebuyers will be required to make a down payment upon closing.

In addition to the above-described affordability benefits, financing will be arranged to roll the closing costs into the mortgage. Title, inspection and appraisal fees will be paid by the NHA. Another financing benefit the NHA will consider in order to ensure the long term viability of the homeownership initiative is to establish a non-routine maintenance and emergency loan fund available to homeowners who experience unexpected major system failures or temporary economic emergencies. The loan program will pay to remedy the system failure or emergency at a 4% interest rate (i.e., cover program administrative cost) provided that the homeowner remains current with the repayment schedule.

Purchase of a home will be determined as follows:

1. Determine annual income

2. Deduct eligible expenses to determine adjusted annual income and divide by 12 to come up with monthly adjusted income

3. Multiply monthly adjusted income by 35 percent to come up with amount of income that homebuyer may use to pay for housing related expenses

4. Deduct housing related expenses, including insurance, ordinary maintenance, property taxes, utilities and non-routine set aside, from income available to pay housing related expenses, to come up with the amount of income available to pay mortgage expenses

5. Determine future value of monthly income available to pay mortgage expenses using a 7 percent fixed interest rate for 30-year term.

Attachment 3 shows the purchase prices at various income levels based upon the methodology set forth above. Note that in no instance will homebuyers pay more than 60 percent of the appraised value of the home.

To ensure the availability of homeownership to qualified homebuyers and to maintain an adequate demand, the NHA will also offer a Lease to Purchase homeownership financing program. Under this ownership model the potential homebuyer would enter a FSS program designed to prepare the candidate for homeownership and find suitable employment that will result in homeownership affordability. Once enrolled in the FSS program the candidate would be eligible to execute a Lease to Purchase contract with the Authority. At the time of contract execution the candidate could move into a homeownership unit and be given a period of between 3-5 years to qualify for homeownership.

The Lease to Purchase program makes homeownership affordable at a much lower income level because it trades off the homebuyer's care and maintenance of their leased unit through sweat equity and replacement reserve credit. Under this option the homebuyer is required to maintain the property as their home (i.e., the Authority does not

service the home other than for semi-annual HQS and housekeeping inspection). In exchange, each month the homebuyer's lease to purchase account is credited with the homebuyer lease payment (30% AGI less the Section 8 standard utility allowance made by homebuyer), and the Authority contributes to the monthly non-routine maintenance.

6.0 Protections and Restrictions

Under the NHA homeownership plan, the purchase price discount will be converted to a 10-year, non-interest bearing silent second mortgage upon transfer of title. The silent second mortgage will be forgiven in equal increments over the 6-10 year term. If the unit is sold during the first five years for other than hardship reasons the NHA will receive payment in full of the silent second mortgage and all net proceeds from the sale. Any appreciation over the appraised value at the time of sale will go to the homeowners. The first use of the net proceeds will always be to pay back the homeowner for what they paid up to the amount available from net proceeds. The cost of resale must be deducted from gross proceeds. After the first five years the NHA will be eligible to receive the unamortized portion of the silent second mortgage (i.e., 20% per year reduction) and share equally in the net sales proceeds with the owner up to the full amount of the purchase price discount. After ten years all sales proceeds will accrue to the owner.

The primary purpose of the silent second mortgage is to protect against windfall profits and to ensure the following homeownership covenants:

- Home must be the homeowner's principal place of residence.
- If the home is sold for hardship in the first 5 years, the owner will only be entitled to receive down payment, principal payments, documented capital improvements paid for by the owner, and the interest accumulated on the down payment and principal payments at the consumer price index rate.
- Home cannot be sold for other than residential purpose during the ten years subsequent to the date of the first title transfer at the site.
- Home cannot be sold without NHA approval.

The affordability and minimum income levels of homebuyers presented in this section are used for the purpose of demonstrating the workability of the proposed homeownership model. The affordability and minimum income levels are reasonable estimates based on current cost and income data, as well as other assumptions. Such assumption includes, but are not limited to, costs associated with utilities, maintenance, average purchase price, etc.

7.0 Future Consultation with Residents

The NHA has consulted and will continue its consultation with residents and resident leadership regarding the planning and implementation of the homeownership program. The NHA feels that the success of the homeownership program is intrinsically linked to resident awareness and dialogue.

The most valuable input from residents in structuring a successful homeownership program is developing the design and features of the homes. The Resident Council will be involved in the renovation process. The homes at Mt. Pleasant were designed for homeownership and are appropriate for sale. Residents will be involved in the decisions regarding existing and planned homes that are being considered for future homeownership. A working committee will be formed to ensure the homes offered meet the needs of the homebuyer candidates.

8.0 Counseling

One-on-one homeownership counseling and group training are essential elements to the success of this program. By and large the homeownership candidate pool is comprised of life long renters. They are unfamiliar with the home selection purchase process, the risks and responsibilities of homeownership, the financing mechanisms, the cost of homeownership, the upkeep and preventative maintenance of the homes, etc. Counseling and training in all of these basic areas will be necessary. Separate homebuyer and homeowner counsel and training curriculums will be developed and delivered as part of the Homeownership Program. Applicant files will document the delivery and results of the counseling and training on an individual basis.

Awareness of and enrollment in the NHA's FSS program will be a critical component of the counseling program. However, enrollment and completing the FSS program will be conducted outside the homeownership program. Linkages will be forged between the Homeownership and FSS service providers to ensure continuity and progress feedback.

9.0 Home Sales

The sale of homeownership units will be conducted through the Authority or its designee. Home sales will only be executed to residents that have completed homeownership training and have demonstrated homeownership capabilities.

10.0 Protection of Non-purchasing Families

No current resident will be involuntarily displaced from the unit they lawfully occupy for the purposes of providing homeownership opportunity. For public housing participants that do not exercise their right of first refusal to purchase a homeownership unit the NHA will offer the resident a relocation package comprised of the following components:

- Provide for the payment of the actual and reasonable relocation expenses of the resident being displaced.

- Ensure that the displaced resident is offered comparable housing.

- Provide necessary counseling for the displaced resident.

- Ensure that the unit will not be transferred until the resident is relocated.

- Provide an incentive package to encourage renter relocation including but not limited to three months' rent, as well as other permissive rent reduction incentives available to the NHA.

To meet the test of "comparable" housing, the unit offered must meet housing quality standards; must be located in an area that is generally not less desirable than the location of the displaced resident's housing; and the rent on the unit paid by the resident must be equivalent to the rental rate paid by the resident for the unit vacated. The housing offered can be tenant- or project-based, or public housing. However, in the case of tenant based assistance the offer of comparable housing is fulfilled only upon the relocation of a resident into such housing.

Residents who lawfully occupy a homeownership unit under a Lease to Purchase contract may be relocated from a homeownership unit upon termination due to Lease to Purchase contract violation.

11.0 Sales Proceeds

Sales proceeds are the funds generated from payments made by the homebuyer for credit to the purchase price (e.g., earnest money, down payment, payments out of the proceeds of mortgage loans, and principal and interest payments under purchase money mortgages), along with the amount payable upon resale.

Our estimate indicates that the NHA will sell all 42 units within 24 months from the start of the program. The sales will generate approximately $1,466,000. As we expect to fund most of the cost of establishing the homeownership program from the Capital Fund, our priority for the use of sales proceeds will be as follows:

- To ensure the success of the NHA's Homeownership Program and to protect the interests of the homeowners. The use of the proceeds will include funds to establish the plan; costs associated with planning, training, and providing technical assistance to potential purchasers; costs to administer the program; costs associated with the non-routine maintenance/emergency loan reserve, and the closing, etc.

- The construction or acquisition of dwellings for sale to low-income families.

- Other public housing purposes that are approved by HUD.

12.0 Disposition Application and Replacement Housing

Homeownership transfer of public housing is exempt from disposition rules. One-for-one replacement has been repealed. However, the NHA will respond to replacement housing vouchers, NOFAs, should they be issued by HUD.

13.0 Administration

The administrative responsibilities under a homeownership program include the following tasks:

- Homeownership candidate outreach and structuring.
- Maintaining an applicant waiting list.
- Establishing and maintaining individual applicant files.
- Screening and selecting applicants.
- Affordability analysis and financing program identification.
- FSS program enrollment.
- Candidate counseling and scheduling homebuyer training.
- Maintaining homeownership housing stock status log.
- Showing home to perspective homebuyers.
- Arranging financing packages with banks.
- Assisting homebuyers with financing.
- Executing silent second promissory notes.
- Executing lease to purchase agreements.
- Inspecting lease to purchase homes.
- Maintaining lease to purchase credits and reserve deposits.
- Scheduling inspections and remedying deficiencies.
- Resolving homeowner complaints and other problems.
- Maintaining homeowner equity calculations.
- Preparing annual equity reports to homeowners
- Calculating and obtaining resale proceeds.
- Managing the maintenance/emergency reserve loan fund.
- Accounting and record keeping of sales proceeds.

There are additional activities that are required to administer the NHA's Homeownership Program. The above list demonstrates our understanding of the level of effort required to administer such a program and the resources that will be required for its administration. We will require technical assistance to establish the procedures and standardize the operation of the program. Cost estimates for such activities are outlined in Section 15.

Initially the NHA will use its staff in collaboration with a consultant to establish the program. We will also explore the advantages and disadvantages of establishing an affiliated Community Housing Development Organization (CHDO) to operate the

homeownership program on an on-going basis. The advantages to this structure include the removal of the stigma of "public housing" homeownership, a CHDO's ability to access CDBG/HOME funds to subsidize its operating costs, and increases to its homeownership capacity and jurisdiction.

14.0 Records, Accounts and Reports

The NHA is responsible for and will comply with the following record maintenance and financial accountability requirements of the Homeownership Program:

- Maintain records on the racial and ethnic characteristics of the purchasers.
- Submit to HUD on an annual basis until the program's completion, a Sales Report, in a format suitable to HUD, outlining the status of individual homes.
- Include in regular independent audits a review of the receipt, retention, and expenditure of all sales proceeds.

15.0 Homeownership Program Budget

Description (Rounded to 000)	Amount
Homeownership Plan Preparation and Approval	$50,000
Program Development Technical Assistance	50,400
General Administrative and Legal Expenses (e.g., homeownership or condominium association development)	200,000
Homebuyer Screening and Selection	10,000
Existing Home Appraisal and Inspection (42 units @ $500/unit)	21,000
Unit Rehabilitation (exclusive of committed Comp Grant Funding)	557,000
Pre-Sale Home Inspection	20,000
Homebuyer Counseling and Training	42,000
Title Search and Legal Costs	42,000
Housekeeping and Maintenance Training	10,000
Annual Lease to Purchase Home Inspection	25,000
Non-routine Maintenance and Emergency Loan Fund (42 existing @ $2,500)	105,000
Total Cost	$1,132,400
Total Per Unit Cost	$27,000
Total Sales Proceeds*	$1,466,000
Per Unit Sales Price**	$ 54,000.00

Note. Property rehabilitation costs in the amount of $4,186,424 have been excluded from the homeownership budget as it is paid from Comp Grant Funds. The remaining funding in the amount of $557,000 is committed to from the public housing operating fund (i.e., resident services account). The operating fund will be reimbursed upon receipt of sales proceeds.

**32 current resident from NJ2-51 are qualified and interested in homeownership. Sales proceeds of $1,466,000 conservatively reflect 32 homeownership units.*

*** NHA will determine one unit price for all homeownership units.*

16.0 Timetable

The events outlined below represent homeownership program milestones and are not intended to be inclusive of all the tasks that are required to design and implement a homeownership program. A detailed plan will be prepared upon HUD's authorization. The milestone events prior to March 2000 included a Market Assessment, a Unit Price Estimate, a Homebuyer Interest Survey, and Resident Input and Homeownership Committee Coordination.

All tasks that are identified prior to submission of the Homeownership Application have been completed. We expect the first units to be available for homeownership title transfer in March 2003. Title transfer to traditional homebuyers is expected to be completed within a two-year timeframe. Lease to Purchase homebuyers are expected to be placed in homes within a two-year period with title transfer completed within the subsequent four years.

Table of Milestone Event

11/00 Begin phase 1 of rehabilitation
11/00 Begin homebuyer applicant counseling and training
11/00 Align homeownership candidates with scheduled home availability
12/00 Begin homeowner training
12/00 Prepare financing package for homeowner candidates
05/02 Complete phase 1 of Homeownership units
05/02 Begin to place homeowners in homes
11/02 Prepare financing package for homeowner candidates
11/01 Begin phase 2 of rehabilitation
05/02 Complete phase 2 of Homeownership units
07/02 Place homeowners in acquisition units
11/02 Prepare financing package for homeowner candidates
07/02 Begin phase 3 of rehabilitation
12/02 Complete phase 3 of Homeownership units
12/02 Place homeowners in units
11/02 Prepare financing package for homeowner candidates
11/02 Begin phase 4 of rehabilitation
05/03 Complete phase 4 of Homeownership units
05/03 Place homeowners in units
02/03 Begin phase 5 of rehabilitation
08/03 Complete phase 5 of rehabilitation
08/03 Place homeowners in units
10/03 Operate ongoing Homeownership Program

SUPPORTING DOCUMENTATION

PROPERTY VALUE ESTIMATE

The housing units are subject to a current updated appraisal which will establish the purchase price of the units. Based on a prior appraisal conducted in 1999 by Baris and Zimmer Appraisals, L.L.C. as provided in section 5 of the homeownership plan the fair market value of the property was $80,000 for the two, 2-bedroom units and $90,000 for the forty, 3-bedroom units. The appraisal represents the value of the units after the proposed renovation work is complete. The Authority intends to sell the units to eligible public housing residents at a deep discount from the appraised value.

The Authority has addressed the risk of fraud and abuse pursuant to 906.13 by:

* Selling the units directly to residents to prevent the collusive purchase of units to the benefit of nonresidents.

* Requiring that the homeowners unit must be the primary dwelling unit of the owner and prohibiting the rental of units by the homeowner in the condominium covenants and restrictions.

* Requiring that the discounted purchase price of the units include a promissory note secured by a silent second mortgage prohibiting a collusive sale to circumvent the resale profit limitation.

The Authority has taken into consideration the potential for windfall profits upon resale, pursuant to 906.14 by requiring the execution of a promissory note to recover profits attributed to the discounted purchase price. Specific details of the promissory note secured by a silent second mortgage are provided in Section 6.0.

WORKABILITY

The workability of the Newark Housing Authority's plan to convey the dwelling units of the Mt. Pleasant Estates under Section 32 of the Housing Act of 1937 as implemented through 24 CFR 906 is based on the practicality of the various key components of the plan as follows:

* A thorough analysis of the housing market has been conducted to establish the reasonable value and affordable purchase price for the dwelling units to be conveyed.

* All costs for repair and rehabilitation are funded and to be born by the Newark Housing Authority and completed before conveyance of the property to the purchaser.

* Homeownership costs (i.e., principal, interest, taxes, insurance, utilities, routine and non-routine maintenance have been calculated and refined during the homeownership feasibility determination process.

* A non-routine maintenance/emergency revolving loan fund of $100,000 has been established to ensure continued affordability

* Eligible homebuyers will be comprised of working families with incomes sufficient to afford the cost of homeownership by paying less than 35% of their incomes to cover all homeownership costs.

* Families unable to initially purchase a unit will be able to enter into a self-sufficiency program and lease purchase contract to maintain occupancy of the unit as they obtain the financial position to purchase a dwelling unit.

* Local financial institutions provide homeownership financing counseling and training, and to provide below market rate loans to eligible purchasers.

*In the year 2000, twenty-seven of the 41 families were willing to purchase their dwelling unit and were able to afford the purchase of their unit. Two eligible families were undecided and one family will relocate. Seven families can qualify under the lease to purchase program. Four families may stay at the Mt. Pleasant site as renters if they do not choose a newly built public housing townhouse. The remaining unoccupied units will be sold to an eligible homeowner. Renting families that subsequently elect to leave will be replaced by qualified homebuyers. Qualified homebuyers will be selected from a homeownership waiting list. The homeownership waiting list currently has over 100 eligible families awaiting a homeownership opportunity.

COMMITMENT AND CAPABILITY

The Newark Housing Authority submits this Homeownership Plan describing the sale of the Mt. Pleasant Estate dwelling units as its first sales in a continuing program of homeownership opportunity for qualified public housing families. Its commitment to the homeownership program is underscored by the need within the jurisdiction that it serves for affordable homeownership units, and as the premier provider of low income housing in the community. The Authority's homeownership program is consistent with the City's Consolidated Plan and with the goals and objectives submitted in the Newark Housing Authority's Agency Plan. Finally, the Authority's commitment to its homeownership program is strengthened through Board Resolution.

The Newark Housing Authority has retained professional homeownership program consulting services to structure and submit its initial homeownership plan. The homeownership plan describes the administrative tasks and activities that must be conducted to complete the sale of the specified units and carry out the on-going administration of the program. Subsequent to the submission of the homeownership plan the Authority has provided for expert technical assistance for future program development, home appraisals, rehabilitation, pre-sale inspection, homebuyer counseling and training, etc. The plan also provides for a third party reality firm to handle the sale and settlement of property and a financial institution(s) to provide for the financing.

The Authority will work hand in hand with these firms through each process. In some cases the Authority will perform the homeownership tasks for future plan submissions and conversions. In other cases (e.g., for financing, sales and settlements) it is likely that continued specialized services will be procured.

RESIDENT PLANNING INPUT

The Mt. Pleasant Estates has been continuously represented by a Resident Council. The Resident Council has been persistent in ensuring that a homeownership opportunity for the Mt. Pleasant residents has remained a viable option.

The Resident Council has convened five meeting with the residents to help understand and structure the homeownership strategies. These meetings and the topics discussed are documented by minutes taken by the Council Secretary.

The Resident Council conducted a Confidential Homeownership Survey that provided the following input by resident:

* Interest in owning the unit lived in.

* Protection against involuntary displacement.

* Preference in relocation or staying.

* Repairs needed in each unit.

* Feedback on marketability and safety of site.

* Credit status and concerns of residents.

The Resident Council was instrumental in influencing the Authority to conduct a follow-up site assessment of the property to determine needed repairs and modernization to provide a lease purchase option to assist in homeownership affordability, and to provide for a emergency loan fund to ensure long term homeownership affordability.

The Resident Council requested that the Authority purchase adjacent land and provide a community building as part of the conversion. The Authority felt that the project could not afford the community building considering the extensive modernization and site improvements that it was making to the site and the cost of ongoing maintenance of the community property. However, the Authority will allow the Condominium Association to use the excesses in the revolving loan fund to help finance the construction of such a building. The terms of use have not been established nor has the Association voted to allow the use of the reserve for such purposes.

The final request made by the Resident Council asked the Authority to finance the conveyance through a purchase money mortgage vehicle. The Authority determined that it is not structured at this time to administer such a program. The Authority requires the full proceeds of the initial sale of units in order to reimburse the cost of the Mt. Pleasant homeownership initiative and to finance further conversions.

NON-DISCRIMINATION CERTIFICATION

The Housing Authority of the City of Newark certifies that it will administer the homeownership program on a nondiscriminatory basis, in accordance with the Fair Housing Act, Title VI of the Civil rights Act of 1964, Executive Order 11063, and implementing regulations, and will assure compliance with those requirements by any other entity that may assume substantial responsibilities for implementing the plan.

Executive Director
Newark Housing Authority

Date

LEGAL OPINION

Frank Armour, Counsel for the Newark Housing Authority has reviewed the Homeownership Plan for the conveyance of the Mt. Pleasant Estates (Project N.J.2-51) and finds it consistent with all applicable requirements of Federal, State and local law, including regulations as well as statutes, or as qualified herewith.

It is our opinion that the requirements that must be fulfilled in order to remove the qualifications identified can be met without special problems that may disrupt the timetable or other features contained in the homeownership.

General Counsel

Date

BOARD RESOLUTION

HOME DRAWINGS AND FLOOR PLANS

EXHIBIT B

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Special Applications Center
77 W Jackson Blvd., Room 2401
Chicago, Illinois 60604-3507
Phone: (312) 886-9754 Fax: (312) 886-6413

OFFICE OF PUBLIC HOUSING

February 16, 2001

Robert Graham
Executive Director
57 Sussex Avenue
Newark, NJ 07193

Dear Mr. Graham:

Enclosed is the completed Implementing Agreement for your recently approved Homeownership Program. You may now proceed with program implementation. A copy of this letter has also been mailed to your local HUD Office.

The Department wishes you continued success in implementing your Homeownership Program. Should you have any questions regarding this matter, please contact Phaedra Mapp at (312) 886-9754 Ext. 2329.

Sincerely,

Ainars Rodins

Ainars Rodins, P.E.
Director

Enclosure

SECTION 5(h) IMPLEMENTING AGREEMENT

PHA. Housing Authority of the City of Newark
Projects: NJ39P002051, Mt. Pleasant, 42 Units

PART I

This Agreement is made and entered into on this 14th day of February, 2001, between the Housing Authority/Housing Agency (HA) of the City of Newark and the United States of America, acting by and through the Department of Housing and Urban Development (HUD).

WHEREAS, the HA has requested approval of a homeownership plan under the Section 5(h) Homeownership Program for public housing, as authorized by sections 5(h) and 6(c)(4)(D) of the United States Housing Act of 1937, as amended (42 U.S.C. 1437 et seq.), and implemented in accordance with the regulations contained in 24 CFR Part 906, and

WHEREAS, HUD has notified the HA that the homeownership plan attached hereto as Part II is approvable; and

WHEREAS, HUD and the HA have agreed to enter into this Agreement to evidence HUD's approval of said homeownership plan and the HA's agreement to implement said plan, without modification, in accordance with its terms and the regulations implementing the Section 5(h) Homeownership Program.

NOW THEREFORE, in consideration of the covenants and agreements set forth herein, HUD and the HA hereby agree as follows:

Section 1. Definitions.

As used in this Agreement, the following terms shall have the meanings hereinbelow ascribed thereto:

Act - United States Housing Act of 1937, as amended, 42 U.S.C. 1437 et seq.

Agreement - This Implementing Agreement with respect to implementing the plan, including the use of sale proceeds thereunder, executed by HUD and the HA, which establishes the rights and responsibilities of the HA with respect to the Plan and the use of sale proceeds thereunder

ACC - The Annual Contributions Contract entered into by HUD and the HA, which contains the terms and conditions under which HUD assists the HA in providing decent, safe, and sanitary housing for low-income families under the Act.

Low-income families - This term has the meaning ascribed to it in section 3 of the Act.

Plan - The HA's homeownership plan pursuant to the Section 5(h) Homeownership Program, for the sale of all or a portion of a public housing development or developments to eligible residents and the use of sale proceeds therefrom for housing assistance to low-income families (after provision for sale and administrative costs necessary and reasonable for carrying out the approved homeownership plan), as set forth in Part II of this Agreement.

Regulations - The regulations contained in 24 CFR Part 906, and as the same may be modified and amended.

Sale proceeds - Includes all payments made by purchasers for credit to the purchase price (including without limitation, earnest money, down payments, payments out of the proceeds of mortgage loans, and principal and interest payments under purchase-money mortgages), together with any amounts payable upon resale under the Regulations, and interest earned on all such receipts.

Secretary - The Secretary of the U.S. Department of Housing and Urban Development.

Section 5(h) Homeownership Program - The homeownership program for public housing, as authorized by sections 5(h) and 6(c)(4)(D) Act, and implemented in accordance with the Regulations.

Section 2. Scope of Agreement.

2.1. This Agreement governs the implementation of the Plan and use of sale proceeds thereunder.

2.2. Upon conveyance of title to any property by the HA in accordance with the Plan, HUD shall release the title restrictions thereon prescribed by the ACC. Thereafter, the property shall no longer be subject to the ACC and shall cease to be eligible for further HUD funding for operating subsidies or modernization. Notwithstanding the foregoing, if the development of which the property is a part is subject to indebtedness under the ACC, HUD shall continue to make any debt service contributions for which it is obligated under the ACC. In the case of a development with other financing restrictions (such as bond-financed development), however, the property shall be conveyed subject to the terms and conditions of the applicable restrictions.

2.3 Any housing developed, acquired or rehabilitated by the HA with sale proceeds under this Agreement (including any local housing program established by the HA with such proceeds) shall be deemed to be outside the scope of the Act, except as otherwise provided herein, and HUD shall have no obligation whatsoever to provide any continuing financial or other assistance to the HA on behalf of such programs or projects.

2.4. This Agreement shall not govern or apply to any income generated by any local program or activity established pursuant to the Plan, so long as such income is not commingled with the sale proceeds under the Plan.

Section 3. Uses of Sale Proceeds.

3.1. The HA agrees that sale proceeds shall be used only in accordance with the Plan, and the requirements and provisions of this Agreement, and certifies that the Plan complies with 24 CFR 906.15, governing the use of sale proceeds.

3.2 Sale proceeds shall be used in an economical and efficient manner (without excessive administrative overhead costs), so as to provide the maximum housing assistance at a reasonable cost to low-income families.

3.3. The HA shall obligate sale proceeds in a timely fashion, in accordance with the project implementation schedule set forth in the Plan.

3.4 The HA shall comply with such other requirements as are imposed by HUD

from time to time by statute, regulation or contractual amendment governing the Section 5(h) Homeownership Program, the Plan or the use of sale proceeds thereunder.

3.5 The HA's Board of Commissioners shall be responsible for implementing the Plan and ensuring that sale proceeds are used in accordance with the requirements of this Agreement. The Board of Commissioners also shall be responsible for all phases of any program developed under the Plan

3.6. The HA must obtain HUD approval under Section 17.2 to modify any of the provisions of the Plan.

Section 4. Establishment of separate account.

The HA shall establish and maintain a separate account for any project or program to be funded with sale proceeds under this Agreement. Such sale proceeds may be commingled with funds contributed to the project or program from other sources, so long as the HA maintains the separate identity of the sale proceeds covered by this Agreement.

Section 5. Certification of Performance of Conditions Precedent.

The HA certifies that it has complied with all conditions and requirements on its part precedent to HUD's approval of the Plan, including, without limitation, compliance with all applicable provisions of the Regulations (which require, among other things, that the Plan meet all three criteria set forth in 24 CFR 906 4 and otherwise be consistent with the requirements of the Regulations, consultation and involvement of residents under 24 CFR 906.5, full and valid execution of an agreement between the HA and the entity established by residents of the HA as required by 24 CFR 906 7, if applicable, delivery of all supporting documentation as required under 24 CFR 906.21.) The HA further certifies that all things necessary to make this a valid binding agreement of the terms and conditions, and for the purposes herein set forth, have been done or have occurred; and that the execution and delivery of this Agreement on its part is in all respects duly authorized in accordance with law.

Section 6. HA Covenants Effective Subsequent to the Execution and Delivery of this Agreement.

6.1 The HA covenants and agrees that, subsequent to the execution of this Agreement, it shall comply with all applicable provisions of the Regulations, including, without limitation, those provisions with respect to consultation and involvement of residents, under 24 CFR 906.5; the physical condition of the property to be sold and compliance with local code requirements and requirements for elimination of lead-based paint hazards, under 24 CFR 906 6, counseling, training and technical assistance, under 24 CFR 906 9; non-purchasing residents, under 24 CFR 906.10, maintenance reserves, under 24 CFR 906.11; and limitations on resale profits, under 24 CFR 906.14.

6.2. The HA shall enforce the provisions of any agreement, executed between the HA and any entity established by residents of the HA, pursuant to 24 CFR 906.7

6.3. The HA shall comply with, implement and enforce all provisions of the Plan.

6.4. The HA agrees to the maximum extent feasible to provide opportunities for employment for public housing residents in carrying out its Plan.

Section 7. Maintenance of Records; Right to Inspect and Copy

The HA shall be responsible for the maintenance, in good condition, of books, accounts, reports, files, records and other documents (including, without limitation, sales and financial records) relating to all activities incident to the implementation of the Plan, in accordance with 24 CFR 906.17, which shall be separate from the HA's books of account and records for the ACC. Any duly authorized representative of HUD, the Comptroller General of the United States or any other appropriate agencies of the Federal, State or local government, at all reasonable times, shall have access to and the right to inspect, examine, audit and copy all such books, records and other documents

Section 8. Audit and Administrative Requirements

8.1. The financial statements of the HA shall be audited annually by a licensed independent public accountant designated by the HA. A written report of each audit must be forwarded to HUD within thirty (30) days of its issuance so that HUD may assess HA compliance with this Agreement. The audit report shall contain a complete set of financial statements, including a balance sheet statement and a statement of receipts and expenditures. Copies of the report also shall be furnished to the resident organization (if any) that represents the HA's project residents. The HA shall submit, and/or permit HUD access to, such other information or sites as HUD may require in order to monitor and assess the HA's compliance with this Agreement. Upon reasonable notice provided to the HA, HUD also may conduct such other audits as are necessary or appropriate

8.2. The HA shall comply with all applicable State and local laws pertaining to the matters contained in the Plan, including all relevant building code, and contracting and procurement requirements.

Section 9. Applicability of Federal laws; Conflicts of Interest.

9.1. The HA shall comply with Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d-2000d-4) and implementing regulations at 24 CFR Part I; the Fair Housing Act (42 U.S.C 3601-3619) and implementing regulations at 24 CFR Part I00 or, as applicable, the Indian Civil Rights Act; the Age Discrimination Act of 1975 (42 U.S.C. 6101-07); Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) and implementing regulations at 24 CFR Part 8, and all other applicable civil rights laws and executive orders.

9.2 The HA shall comply with all other Federal laws, as are applicable.

9.3. (a) No person or entity in the following classes shall have an interest, direct or indirect, in this Agreement or in any proceeds or benefits arising from it, during his or her tenure, or for one year thereafter:

(1) Any board member or officer of the HA;

(2) Any employee of the HA who formulates policy or influences decisions with respect to the development, acquisition, rehabilitation, or any other use of the sale proceeds provided for in the Plan;

(3) Any member of the governing body or the executive director of the locality (city, county, or reservation) in which the HA, the property to be conveyed under the Plan, or any project to be acquired, developed, rehabilitated, or otherwise assisted under the Plan is (or will be) situated;

(4) Any other State, tribal or other local public officials (including State legislators), who exercise any functions or responsibilities with respect to the property to be conveyed under the Plan, any project to be acquired, developed, rehabilitated or otherwise assisted under the Plan.

(b) No member or Delegate to the Congress of the United States of America or the Executive Director of the HA shall be admitted to share any part of this Agreement or to receive any benefits that arise therefrom. No board member, officer or employee of the HA, no member of a state or tribal legislature, no member of the governing body locality or localities, nor any other public official of such locality or localities that exercise any function or responsibility with respect to the developments covered by this Agreement, during their tenure, or one year thereafter, shall have any interest which produces or is intended to produce a personal financial benefit, direct or indirect, in this Agreement or the sale proceeds.

(c) If any such persons acquire, or acquired, any such interest, prior to appointment or employment as such member, officer, or employee, he or she shall not participate in any action of the HA relating to the property described in this Agreement in which they may have any interest.

(d) The HA shall include, or cause to be included in all its contracts with contractors, subcontractors, or any party involving the use of the sale proceeds, conflict of interest provisions in accordance with this section.

Section 10. Default.

10.1. Any one of the following acts, singularly or in conjunction with any other of such acts, shall constitute a default by the HA. (1) the HA has used, or is using, sale proceeds for purposes not permitted by, or inconsistent with, the provisions of this Agreement; (2) the HA has failed to comply with any other covenant, agreement, provision or warranty made in this Agreement; (3) an audit conducted in accordance with section 8.1 reveals evidence of mismanagement of funds; or (4) the HA has demonstrated an intention not to perform any or all of its obligations under this Agreement.

10.2 If HUD determines that a default under section I0 1 has occurred, it shall notify the HA in writing of its determination. Such notice of default shall include a brief statement of the reasons for HUD's determination and shall provide the HA with an opportunity, within a prescribed period of time, to cure the specified default or otherwise respond to the determination, unless immediate action is required to protect the Federal interest.

Section 11. Sanctions and remedies

11.1. Upon occurrence of a default, as specified in Section 10.1, HUD may take one or more of the following actions:

(a) Issue a warning letter to the HA advising it of the default and establishing a date by which corrective actions must be completed, and informing the HA that more serious actions may be taken if the deficiency is not corrected or is repeated;

(b) Order the HA not to incur any additional financial obligations, or to suspend payments, for one or more activities undertaken pursuant to this Agreement;

(c) Direct the HA to reimburse one or more program accounts, from non-HUD sources, for any amounts improperly expended;

(d) Recapture for good cause any funds made available to the HA pursuant to this Agreement;

(e) Take all other necessary or appropriate corrective actions, as determined in the sole discretion of the Secretary, to remedy the HA's default or protect the Federal government's interests.

11.2. HUD's failure to exercise any right or remedy (either before or after its issuance of a notice of default under section 10.2) shall not constitute a waiver of any of the rights or remedies available to HUD, either as provided by section 11.1 of this Agreement, or as otherwise provided by law. Furthermore, the availability or exercise of any remedy under this Agreement shall not preclude the exercise by HUD of any other remedy available under this Agreement, or as otherwise provided by law, or be considered a waiver of any other rights or remedies.

11.3. HUD may consider the HA's default under this Agreement as a factor in deciding whether to award or to renew the award of assistance to the HA under other HUD programs.

Section 12. Duration of Agreement.

(a) The term of this Agreement shall commence upon its execution by HUD and the HA, and shall remain in effect until all sale proceeds under this Agreement have been expended by the HA and the HA has fully complied with, or caused the compliance with, all terms, conditions and requirements of the Plan.

(b) If the term of this Agreement expires in accordance with subsection (a) above, and provided that there remains no uncured default (or any uncured defaults have been waived, in writing, by the Assistant Secretary for Public and Indian Housing), then the HA shall have no further responsibility to HUD under this Agreement.

Section 13. Termination for Convenience

This Agreement may be terminated if both HUD and the HA agree that continuation of the Agreement is infeasible. In such an event, the HA agrees that any funds not expended in carrying out this Agreement shall be returned to HUD. Other provisions governing the termination of this Agreement, including the date of termination, shall be mutually agreed upon by HUD and the HA.

Section 14. Rights of Third Parties.

14.1. Nothing contained in this Agreement shall be construed to create or justify any claim by a third party against HUD.

14.2. HUD does not assume any responsibility for, or liability to, any person injured as a result of the HA's action, or its failure to act, in connection with the implementation of this Agreement, or as a result of any other action or failure to act by the HA.

14.3. The HA is not the agent of HUD, and this Agreement does not create or affect any relationship between HUD and any lender to the HA, or any suppliers, employees, contractors or subcontractors used by the HA in the implementation of this Agreement.

Section 15. Entire Agreement.

15.1 This Agreement, which consists of Part I, the Plan incorporated as Part II and any exhibits attached hereto constitutes the entire agreement between HUD and the HA with respect to the subject matter hereof. This Agreement may be amended or modified only by a written instrument duly authorized and executed by the parties hereto. This Agreement shall be binding on and inure to the benefit of the parties and to their respective successors-in-interest and assigns.

15.2. The following exhibits, which are attached hereto, are incorporated into this Agreement and expressly made a part hereof:

Exhibit A: N/A
Exhibit B:
Exhibit C:
Exhibit D:

15.3. Part II of this Agreement contains the HA's Plan and shall discuss, as applicable to the particular fact situation, each of the matters set forth in 24 CFR 906.20, as applicable.

Section 16. Waiver or Amendment.

16.1. HUD reserves the exclusive right to waive, at the sole discretion of the Secretary and to the extent permitted by law, any requirement or provision under this Agreement. No act by or on behalf of HUD shall be deemed to be a waiver of any such requirement or provision, unless the same be in writing, signed by the Secretary, and expressly stating that it constitutes a waiver.

16.2 This Agreement, or any part hereof, may be amended only in writing, duly authorized and executed by HUD and the HA. The HA must obtain HUD approval under this section to modify any provision of this Agreement, including, without limitation, any provision of the Plan under Part II. Any amendment to this Agreement executed by HUD and the HA shall have the same force and effect as this Agreement.

Section 17. Severability.

The invalidity of any section, subsection, clause or provision of this Agreement shall not affect the validity of the remaining sections, subsections, clauses or provisions hereof.

Section 18. Approvals and Notices.

18.1. Any notice or demand under this Agreement shall be in writing, and signed by a duly authorized officer of the party giving such notice or demand. Notice shall be deemed to have been given at the time it shall have been received at the principal office or address of the party to whom it is directed.

18.2. Any notices sent to HUD shall be mailed, postage prepaid, or delivered to the appropriate HUD Field Office at the following address (or at such other address as established by notice):

U. S. Department of Housing and Urban Development
New Jersey State Office
One Newark Center
13th Floor
Newark, NJ 07102-5260

Any notice sent to the HA shall be mailed, postage prepaid, or delivered to (or at such other address as established by notice).

Housing Authority of the City of Newark
57 Sussex Avenue
Newark, New Jersey 07103-3992

HUD and the HA have caused this Agreement to be executed in their respective names and have caused their respective seals to be hereunto affixed and attested to as of the date(s) shown below.

(SEAL)

ATTEST,

Public Housing Agency/Indian Housing Authority
Housing Authority of the City of Newark
Chairman

2/14/2001
Date

UNITED STATES OF AMERICA
Secretary, Department of Housing
and Urban Development
By:

2.16.2001
Date

Approved for Legality

PART II

PLAN

HOUSING AUTHORITY NHA CITY OF NEWARK

ROBERT GRAHAM
EXECUTIVE DIRECTOR

February 14, 2001

Mr. Ainars Rodins, P.E.
Director
U.S. Department of Housing
and Urban Development
Special Applications Center
77 West Jackson Boulevard
Room #2401
Chicago, Illinois 60604-3507

Dear Mr. Rodins:

Re: Homeownership Agreement-Project #NJ39P002051
Mt. Pleasant, 42 Units

Enclosed please find two copies of the executed Homeownership Agreement for the above mentioned project.

Please sign the copies and return a completed copy for our files.

If you have any questions, please contact me at (973) 430-2235.

Very truly yours,

Frank L Armour

Frank Armour
General Counsel

FA:gd

Attachments

Homeownership Plan
for the
The Housing Authority
of the City of Newark

(Mt. Pleasant Estates N.J. 2-51)
October 23, 2000

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Executive Summary

The Homeownership Plan described through this document establishes the Newark Housing Authority's homeownership initiative. This plan provides a foundation for an ongoing homeownership program designed to provide economic opportunity for low-income families participating in public housing programs. It sets out the policies and standards under which the Authority will operate its homeownership initiative. This plan also packages the first dwelling units that will be sold to qualified buyers. The proposed homeownership initiative is subject to Sections 32 of the United States Housing Act of 1937 (i.e., rules that guide the sale of public housing subject to an Annual Contributions Contract) as implemented by 24 CFR 906.

The Newark Housing Authority (NHA) initial plan is to substantially rehabilitate and sell the 42 semi-attached townhouses that comprise the public housing site of Mt. Pleasant Estates (NJ 2-51). The site is located in the North Ward of the City of Newark. The site was built during 1993/4 as market rate homeownership condominiums. The site was purchased by the NHA and placed under an Annual Contribution Contract (ACC) in 1994. The development is fully occupied (less one) at this time.

The Authority's plan for implementing the homeownership initiative is to extensively rehabilitate all 42 units prior to title transfer to the existing, eligible tenants. Funding for the substantial rehabilitation is provided through the Comprehensive Grant Program and the homeownership administrative activities will be funded through sales proceeds. The budgeted cost of the described homeownership initiative is $ 3,469,480 or approximately $82,606 per unit.

Condominium title will be transferred to eligible homebuyers who can afford to purchase in the conventional manner, or a lease to purchase program will be offered to homebuyers that otherwise qualify for homeownership. Unit renovation and title transfer is to be completed within 18 months of the homeownership initiative approval by the Department of HUD.

Mt. Pleasant dwelling units will be offered to the existing 41 occupants for $54,000 for 3-bedroom units and 48,600 for the two, 2-bedroom units. Twenty-seven occupant families are interested and are income qualified to purchase. Two income eligible families are undecided. Seven families are interested and may qualify under a lease to purchase conveyance. Five income qualified families are not interested in purchasing. One unit is vacant and will be filled with an income qualified and interested family.

HUD's criteria for homeownership plan approval are workability, legality and documentation. Adhering to these criteria will ensure HUD's approval of the program and contribute to its success. An important, but secondary criterium is that program is designed to provide homeownership opportunities that are affordable to the greatest amount of tenants currently residing in the units. Therefore, the homeownership program is designed to offer a broad range of financial assistance and purchase price discounts to ensure low-income affordability.

The homeownership plan framed by this document is workable with sound potential for long-term success. Financial viability, including the capability of the purchaser to meet the financial obligations of homeownership is a fundamental program requirement. The plan is consistent with law, including the requirements of Section 32 as regulated by 24 CFR 906, and other applicable local, State and Federal statutes, regulations and existing contracts. Finally, the plan clearly and completely describes the homeownership program. This document serves as the foundation for program approval by HUD, implementation and ongoing operation.

The homeownership plan is accompanied by an appendix that contains exhibits to aid in the HUD approval process. It also provides the requisite supporting documentation including the property value estimate, workability statement and legal opinion. The Plan was prepared with the benefit of low-income housing resident collaboration. It incorporates their views and recommendations. Finally, the NHA Board of Commissioners has endorsed the plan.

1.0 Property Description

The NHA Homeownership Plan envisions the sale of 42 newly renovated public housing, semi-detached townhouses referred to as the Mt. Pleasant Estates. The townhouses built for the retail market are contained within 5 buildings that sit on 1 88 acres of land. The market rate development was substantially complete around 1990, but sat mostly unoccupied due to construction financing problems. The NHA acquired the property in 1994.

Mt Pleasant is located in the North Ward. The neighborhood is called Mt. Pleasant/Lower Broadway. The site is bounded by Gouverneur Street to the north, Mt. Pleasant Avenue to the east, Clark Street to the south and Broad Street to the west. Mt. Pleasant nestles itself in a small residential strip sandwiched between McCarter Highway and Broadway both being major arteries. To the east of Mt Pleasant is primarily industrial neighborhood. The neighborhood becomes more residential to the north and east of this development. Broadway acts as a dividing line between the Mt. Pleasant neighborhood and it adjacent neighbors to the west.

Generally speaking, the Mt. Pleasant three-bedroom, one and a half bathroom townhouses are very versatile and therefore marketable. The units have basements providing added advantages for storage and/or convertible to living space. The Mt. Pleasant units can accommodate a variety of family structures that are particularly desirable to single parent families with two children of opposite sex, married couples with families of up to four children, and three generation families.

Further identification of the proposed homeownership property is summarized below:

Building	Address	Number of Units	Bed Rooms	Bath Rooms	Basement
Building 1	21-35B Gouverneur Street	9	3	1.5	Yes
Building 2	215-231 Mt. Pleasant Avenue	9	3	1.5	Yes
Building 3	233-247 Mt. Pleasant Avenue	8	3	1.5	Yes
Building 4	222-230 Broad Street	7	3	1.5	Yes
		2	2		
Building 5	240-252 Broad Street	7	3	1.5	Yes
	Total Units	42			

The site was designed for market rate condominium ownership and not as public housing rental units. The development consists of (5) row type buildings. The three-bedroom, one and a half bathroom configuration design is consistent with all but two units (i.e., building 4 has two units that are two-bedrooms). The units are spacious (i.e., 1,500 sq. ft. living space excluding basements) have ample storage and individual basements. A site plan is included as Attachment 1, and floor plans are included as Supporting Documentation.

Each apartment shares a demising wall. The general construction is wood frame with masonry veneer. The foundation walls are concrete block. The roof construction is comprised of prefabricated roof trusses, plywood sheathing building paper and asphalt shingles. Wall construction is comprised of 2 x 6 wood framing, plywood sheathing and several different finish materials such as 4" veneer brick, sprayed cement plaster finish, stucco stone face finish. Floor framing consists of prefabricated web joists, plywood sheathing and either carpeting or vinyl flooring.

The units are individual gas fired hot air furnaces with individual hot water heaters. Town homes are individually metered for all utilities. The units are not centrally air-conditioned but can be converted.

The interior finishes are painted gypsum wallboard for walls and ceilings. Some units have wood paneling located around existing fireplaces and along the chimney. (Note: not all units have fireplaces). The floor finishes consists of wall to wall carpeting, vinyl sheet flooring and 2" x 2" ceramic tile flooring which occurs at the bathroom location only. Kitchen cabinetry is raised panel wood. Trimming around windows, interior doors and floor base are wood.

Each unit has a private deck and green space. Townhouses do not have garages, but they do have individual parking pads in rear with gated access to rear yards. Other site and unit amenities and features include:

- Large spacious rooms particularly, living, dining and kitchen areas
- Front and rear entrances
- Private rear yards and elevated wood decks
- Individually enclosed storage sheds located in rear yards for residents on Governeur Street.
- Operable fireplaces with decorative wood paneling and mantelpieces in many units
- Sliding glass doors that allow ample light into kitchens and access to elevated wood decks
- Mirrored glass sliding closet doors
- Full basements with washers and dryer hookups (unfinished though easily adapted to living space)
- Wood vanities and Hollywood bulb lighting in bathrooms
- Wall to wall carpeting
- Wood balustrade handrails
- Wood paneled interior doors
- Brass plated porch lights
- Gas Stoves

2.0 Repair or Rehabilitation

The NHA has prepared a modernization plan for the site that will address current structural and code violations. The repair and rehabilitation plan is finalized and all work is to be completed in by the end of summer 2002. The work is extensive. It includes repairs to remedy deficient design and construction, work to increase long-term affordability and amenities to improve the quality and marketability of the units.

The physical condition of the property transferred will meet the more stringent criteria of local code or HQS standards for housing quality. The units were built in 1993/4 and meet the lead based paint standards in accordance with subpart C of 24 CFR 35. Accommodation for accessibility features for disabled will be made, as appropriate, in accordance with 24 CFR parts 8 and 9.

Modernization is to be completed in five phases (i.e., sequentially, building by building). The estimated budget for repair and rehabilitation is estimated at approximately $83,000 per unit or $3,469,000. Repair and Rehabilitation will be funded through the NHA's Capital Grant Program. Attachment 2 presents a unit-by-unit Repair and Modernization Schedule.

The following list is a summary description of the major work planned for the site:

- Remove and replace existing concrete sidewalks as required because they are settling, cracking, and dipping with the potential for tripping hazards to easily occur.

- Existing windows are to be removed and replaced to remedy poor window quality and sealant deterioration.

- Asphalt roofing shingles are to be replaced throughout including the shed roofs located in the rear of each unit.

- Roof flashing, including boots at vent stacks are to be replaced along with damaged roof trusses.

- Existing perforated vinyl soffits are to be removed and replaced.

- Exterior finishes (i.e., brick veneer, sprayed cement plaster and a stone stucco) are experiencing various degrees of deterioration and failure. The brick veneer showing severe signs of cracks and failure due to expansion and settlement is to be replaced with new masonry veneer to match existing. Other remedies include shoring, replacement of steel angles, through-wall flashing and masonry; sealing all open cracks resulting from expansion with an elastomeric sealant; and cutout and re-point all loose and deteriorated mortar joints. The cement plaster that is sprayed directly onto the sheathing at the building facade is showing signs of discoloration, cracking. The cement plaster finish is to be replaced.

- Perimeter walls with cement plaster showing cracking due to settlement are to be repaired.

- Front porches are to be completely rehabilitated and flashing at the interface between the stoop landing and the door threshold is to be replaced.

- The extensive porch work that needs replacing will trigger the agency into replacing most of the handrails.

- Entry and screen doors along with their wood framing where necessary are to be removed and replaced. The existing decorative door surrounds are to be painted.

- Interior floors are experiencing deflection and in some units. Strengthen deteriorated floor structure where necessary, shore floor structures where required and apply new sheathing and underlaminent

- All decking are to be sealed with a semi-transparent deck stain.

- Gas fired furnaces are to be replaced and all ductwork, flues and grilles will be cleaned.

  - Wood stairs and handrails leading to the basements are to be replaced where necessary.

- Kitchen countertops and backsplashes are to be replaced.

The described sale and occupancy standards will be met as a condition to property conveyance. Under no circumstances will the homebuyer be required to accept a home that does not meet the above-described standards prior to title transfer.

3.0 Purchaser Eligibility and Selection

All candidates interested in homeownership are required to complete a homeownership application. Each complete application will be dated as received by the Authority. The order of application receipt notwithstanding, the eligibility and preference factors defined herein will determine selection order.

Complete applications are to be screened for eligibility. Candidates must meet the following eligibility criteria:

- Qualify as a family assisted by a public housing agency, a low-income family; or an entity formed to facilitate a sale by purchasing units for resale to low-income families. In the case of the latter, the purchasing entity must resell all units to low-income families within five years from the date of acquisition of the unit(s).

- The owner must occupy the unit as its principal residence.

- The owner's family must qualify as a low-income or an assisted family at the time of purchase in the case of a contract to purchase existing housing, at the time the agreement is signed in the case of a lease to purchase for housing to be constructed; and at the time the contract is signed in the case of housing to be constructed.

- Have evidence of regular income or, in the case of a lease to purchase conveyance, be enrolled in a job-training program.

- Family members cannot have been convicted of drug related or violent criminal activity during the previous three years.

- Capable of assuming the financial obligations of homeownership, under minimum income standard for homeownership, taking into consideration the unavailability of public housing operating subsidies and modernization funds after homeownership conveyance. The applicable must meet the following threshold:

  - Applicant's payments for principal, interest, insurance, real estate taxes, utilities and maintenance cannot exceed 40% of adjusted income as defined in accordance with Paragraph (5) of section 3(b) of the 1937 Housing Act plus any subsidy that will be available for such payments; or, if the homeownership unit is so

designated, the applicant agrees to participate in a Lease to Purchase Program and meet the affordability criteria within a 3-5 year timeframe.

- Able to pay amounts required for closing such as a down payment and title transfer, mortgage fees, etc. that are chargeable to the purchaser. At a minimum the family must contribute an amount equal to 1% of purchase price towards the required 2.5% down payment from resources of the family other than grants, gifts, contributions, and similar amounts.

Note : Candidates who fail financial lease compliance screening will be notified in writing and given a reasonable period of time to remedy the deficiency. Extensions to the agreed upon remedy period will not be offered.

- Public housing families must be in compliance with the public housing lease obligations for a period of not less than 1 year prior to contract to purchase or lease purchase conveyance unless a lesser period of time has elapsed since the beginning of public/assisted housing participation. Lease compliance includes payment of rent and other charges, reporting all income that is pertinent to determination of rental charges, and meeting HQS/housekeeping responsibilities.

Applicants who meet the eligibility criteria are to be selected in the following order of preference:

- For occupied public housing units that become designated for homeownership, the resident(s) occupying that unit, if any, regardless of direct transfer from the NHA or from an organization serving as a conduit for sales. The residents right of first refusal is guaranteed under Section 32 of the 1937 Housing Act as implemented through 24 CFR 906.

- For vacant units that become designated for homeownership:

  - First preference is given to eligible public housing program participants who have completed a self-sufficiency program or who meet minimum income requirements for homeownership, and have been subject to temporary relocation.

  - Second preference is given to eligible public housing program participants who have completed a self-sufficiency program or who meet minimum income requirements for homeownership.

  - Third preference is given to NHA Section 8 program participants who have completed an FSS program or who meet minimum income requirements for homeownership.

- Fourth preference is given to eligible persons on the public housing program waiting list who meet homeownership eligibility and affordability criteria.

- Fifth preference will be given to Section 8 program participants who are successfully completing a FSS program.

No other preferences are available for the homeownership program. Eligible homeownership candidates (i.e., low-income families) will be ranked in order of application completion within each preference category.

4.0 Appraised Fair Market Value and Marketability

The sales price of units will be based on their appraised fair market value after proposed repair and renovation is completed. The fair market value of individual homes prior to sale will be established individually by an independent appraisal. For or homeownership planning purposes, we have establish an average fair market value of the forty, 3-bedroom units after renovation and extrapolated the cost of the two, 2-bedroom units based on the square footage differential.

The average fair market value of the Mt. Pleasant units is based on the City of Newark housing market as a whole. The appraised market value is based on studies conducted in 1998 by the planning and development firm of S. Huffman Associates, and in 1999 by the independent appraisal firm of Baris and Zimmer Appraisals, L.L.C. It is important to note that the fair market values presented are used for the purposes of establishing a sales price (i.e., market value) for the asset to be sold and not to determine the purchase price of any particular unit sold by NHA. The primary reason for the market value determination exercise is for purposes of HUD evaluation, establish the purchase price discounts and to determine the range of financing assistance required for affordability.

According to the 1999 study prepared by Baris & Zimmer the median housing value in Newark was approximately $70,000. Sales prices for condominiums sold in Newark between 6/1/96 and 5/30/98 were approximately $80,000. In 1993, the NHA purchased all 42 units for $3,359,000 or $80,000 per unit.

Comparable property to Mt. Pleasant is phase 1 and 2 of the Society Hill Townhouses (i.e., 164 and 314 units, respectively). These town homes were completed about the same time as Mt. Pleasant and sold at between $93,000 and $116,000 in 1988 for phase 1 homes, and between $110,000 and $130,000 in the early 1990s for the phase 2 homes.

The Society Hill homes are three bedroom units and are between 1,100 and 1,650 square feet of living space per unit as compared to 1,500 square feet of living space for Mt. Pleasant Homes. Unlike Mt. Pleasant, the Society Hill homes are air-conditioned, have electronic security systems and many have garages. However, the Society Hill Homes have no basements or rear patios.

According to S. Hoffman's study completed in May of 1999, local realtors feel that current resale prices are still in the $110,000-$130,000 price range (i.e., little to no appreciation).

Other smaller townhouse developments of similar configuration (i.e., three-bedroom, one and a half bath, 1,100 to1,500 square feet of living space, off-street parking and patios) are valued at between $100,000 and $110,000 in the Central Ward. However, some such townhouses are selling at as low as low as $72,000 as a result of UHORP (i.e., state funded subsidy to the developer for qualified low income families). An example of a subsidized townhouse development is the St. James Square Townhouses. The 1,200 square foot townhouses have three-bedroom, one and a half bathrooms and garages. The appraised market value of the townhouses is about $123,000. However, a new townhouse can be purchased for as low as $55,000, if a four-person family earns less than $33,650 per year (i.e., eligible to receive grants from the City and State equal to $68,000 per unit). The purchase price for the same unit goes up to $67,000, if the same sized family earns between $33,651 and $47,800. Families of four earning over $47,800 are not eligible for subsidy.

Based on the housing market described above, we believe that comprehensively renovated Mt. Pleasant units (i.e., $83,000 of improvements) are likely to be valued at $120,000. However, do to market conditions and the supply of subsidized dwellings the marketed value is likely to be in the vicinity of between $90,000 and $100,000. We will use $90,000 for determining the appraised market value for establishing the sales price of the units. However, because the units must be sold to qualifying low-income families, purchases prices are likely to be in the $50,000 to $65,000 range.

The marketability of these units to the families targeted by NHA for homeownership is a key consideration in the feasibility of the Mt. Pleasant Homeownership initiative. Marketability considers both the interest and the income levels of the families that are currently residing in the Mt. Pleasant units and the broader population of the low-income family market. It also considers the value of the units based on competitive pricing practices.

We will begin the marketability analysis of the Mt. Pleasant homes by examining the interest and existing capacity of current residents to afford ownership of the units they occupy. Remember, 41 of the 42 townhouses are occupied. Therefore, first right of refusal will be offered for all but one townhouse.

Based on the homeownership survey completed in March 2000, average site income is approximately $27,500. Thirty-one of the families are working. Thirty-two of the families (78%) earn in excess of $15,000 per year. Twenty-six families earn over $20,000 per year (63%). Only three families earn less than $10,000 per year. Twenty-seven occupant families are interested and are income qualified to purchase. Seven families are interested and may qualify under a lease to purchase conveyance. Seven income-qualified families are not interested in purchasing or are undecided. One unit is vacant and will be filled with an income qualified and interested family.

Based on the above date that is supported by signed data sheets, we can expect between 5 and 7 families will may not purchase their units. There are literally hundreds of interested, income qualified homeownership applicants awaiting an opportunity to purchase a unit at Mt. Pleasant Estates if one should become available.

Should the unit not be available for sale because the existing occupant does not voluntarily relocate, the Authority will either designate one of the 5 buildings as public housing rental units or convert the site to project based section 8 and convey the property to the condominium association. Should the section 8 conveyance take place, resale restrictions will be put in place to ensure the long-term protection of non-purchasing families and guard against windfall profits.

5.0 Affordability and Financing

Industry practice usually determines maximum homeownership initial affordability standard as 40% of a family's annual adjusted income. For instance, a family that earns $25,000 per year cannot afford a home that is priced above $62,500 (i.e., $25,000 / $62,000 = 40%). This is a maximum affordability benchmark. Other factors must be considered before final affordability can be determined such as mortgage burden, taxes and utilities. Nonetheless, the average initial affordability level of the families currently living at Mt. Pleasant is approximately $69,000 (i.e., $27,574 average income / 40% maximum affordability standard = $68,935).

To ensure affordability for low-income families our model will consider the full cost of homeownership for affordability determination. The model is described in the following paragraphs.

Based on the market study data, the Mt. Pleasant Estate townhouse have a market value of $90,000 and the NHA will offer eligible low-income families up to a 40% purchase price discount. Thus, the average purchase price of a home will be $54,000. The maximum 40% homebuyer discount offered will be reduced by an amount necessary to ensure that the buyers monthly homeowner cost (i.e., principal, interest, taxes, insurance and utilities) is equal to or greater than 25% of family's adjusted gross income as calculated in accordance with 24 CFR Part 5.

We believe the "good cause" that justifies the deep 40% purchase price discount is the existing subsidized homeownerhip market that exists in Newark. Furthermore, requiring that all participants pay at least 25% of adjusted gross income ensures the equitability of the program. Finally, the silent second amortization ensures against windfall profits.

In addition to a purchase price deduction, the Authority expects to negotiate eligible below market rate, fixed mortgage financing equal to two or three points below current rates (i.e., local lending institutions offer 7% fixed rates, that include mortgage insurance, to qualified low income families). Homebuyers will be required to make a 2.5% down payment upon closing. The effect of the purchase discount and financing package is to reduce the homeowner principal

and interest payment on a home with a market value of $90,000 from $660 per month to $334 per month.

In addition to the above-described affordability benefits, financing will be arranged to roll the closing costs into the mortgage, and title, inspection and appraisal fees will be paid by the NHA. Other financing benefits the NHA will consider to ensure the long-term workability of the homeownership initiative is to establish a non-routine maintenance and emergency loan fund available to homeowners who experience unexpected major system failures or temporary economic emergencies. The loan program will pay to remedy the system failure or emergency at a 4% interest rate (i.e., cover program administrative cost) provided the homeowner maintains current with the agreed upon repayment schedule.

On a $54,000 purchase price, we estimate the closing costs to be about $3,000 and the NHA closing fees paid to be $1,000. The home purchase price for mortgage determination is $55,650 (i.e., $54,000 + $3,000 closing - $1,350 down payment). Based on the above-described discounted purchase price, 2.5% down payment, mortgage financing rate deductions, and reimbursed/rolled-in closing cost payments, the estimated average monthly homeownership costs are $ 822 as identified below:

Principal and Interest @ 7% for 30 years	$ 370
Property Taxes @ $14.66/$1,000 with 2.456 multiplier	162
Home Insurance	35
Utilities	180
Ordinary Maintenance	50
Non routine set aside	25
Total	$ 822

Based on 40% maximum payment affordability standard (i.e., including homeonwership costs), homebuyers would have to earn $24,660 per year to afford a home. This is an affordable price for 23 families currently living in Mt. Pleasant Estates.

To ensure the availability of homeownership for otherwise qualified homebuyers and to maintain an adequate demand, the NHA will also offer a Lease to Purchase homeownership financing. Under this ownership model the homebuyer candidate would enter a FSS program designed to prepare the candidate and find suitable employment that will result in homeownership affordability. Once enrolled in the FSS program the candidate would be eligible to execute a Lease to Purchase contract with the Authority. At the time of contract execution the candidate could move into the homeownership unit and be given a period of between 3-5 years to qualify for homeownership.

The lease to purchase program makes homeownership affordable at a much lower income level because it trades off the homebuyer's care and maintenance of their leased home for sweat equity and replacement reserve credit. Under this option the homebuyer is required to maintain the property as their home (i.e., the Authority does not service the home other than for semi-annual HQS and housekeeping inspection). In exchange, each month the homebuyer's lease to purchase account is credited with the homebuyer lease payment (30% AGI less the Section 8 standard utility allowance made by homebuyer), and the Authority contributes to the monthly non-routine maintenance. For a person whose earnings over the five-year lease period averages $14,000 per year, the annual

lease to purchase credit is $2,040. Over a period of five years at 5% interest the lease to purchase credit for down payment grows to $11,300. The monthly cost of ownership is as follows:

Principal and Interest ($55,650 - $11,300) @ 7% for 30 years	$ 295
Property Taxes @ $14.66/$1,000 with 2.456 multiplier	162
Insurance	35
Utilities	180
Ordinary Maintenance	50
Non routine set aside	25
Total	$ 747

Based on the 40% maximum payment affordability standard the annual income requirement to afford the home is $22,410 at the time of title transfer. That is to say a family whose average annual earnings of $14,000 during the lease period must earn $22,410 income to complete the lease transfer contract. Thirty-four families (79%) that are current residents of Mt. Pleasant could afford to purchase their homes under one of the two financing packages that we recommend.

6.0 Protections and Restrictions

The primary affordability component is the estimated 40% purchase price discount that each family is eligible to receive. Under the NHA homeownership plan, the purchase price discount will be converted to a 10-year, non-interest bearing silent second mortgage upon transfer of title. The silent second mortgage will be forgiven in equal increments over the 6-10 year term. If the unit is sold during the first five years for other than hardship reasons the NHA will receive payment in full of the silent second mortgage and 50% of net sales proceeds. After the first five years the NHA will be eligible to receive the unamortized portion of the silent second mortgage (i.e., 20% per year reduction) and share equally in the net sales proceeds with the owner up to the full amount of the purchase price discount. After ten years all sales proceeds will accrue to the owner.

The primary purpose of the silent second mortgage is to protect against windfall profits and to ensure the following homeownership covenants:

- Home must be the homeowner's principal place of residence.
- If the home is sold for hardship in the first 5 years, the owner will only be entitled to receive down payment, principal payments, documented capital improvements paid for by the owner, and the interest accumulated on the down payment and principal payments at the consumer price index rate.
- Home cannot be sold for other than residential purpose during the ten years subsequent to the date of the first title transfer at the site.

Affordability and minimum income levels of homebuyers presented in this section are used for the purpose of demonstrating the workability of the proposed homeownership model. The affordability and minimum income levels are reasonable estimates based on current cost and income data, as well as other assumptions. Such assumption includes, but are not limited to, cost associated with utilities, maintenance, average purchase price, etc.

7.0 Future Consultation with Residents

The NHA has and continues its consultation with residents and resident leadership regarding the planning for and implementation of the homeownership program. The NHA feels that the success of the homeownership program is intrinsically linked to resident awareness and dialogue.

The most valuable input from residents in structuring a successful homeownership program is regarding the design and features of the homes. The Resident Council will be involved in the renovation process. The homes at Mt. Pleasant were designed for homeownership and are appropriate for sale. Residents will be involved in decisions regarding existing and planned

homes that are being considered for future homeownership sale. A working committee will be formed to ensure the homes offered meet the needs of the homebuyer candidates.

8.0 Counseling

One-on-one homeownership counseling and group training are essential elements to the success of this program. By and large the homeownership candidate pool is comprised of life long renters. They are unfamiliar with the home selection and purchase process, the risks and responsibilities of homeownership, the financing mechanisms, cost of homeownership, upkeep and preventative maintenance, etc. Counseling and training in all of these basic areas will be necessary. Separate homebuyer and homeowner counsel and training curriculums will be developed and delivered as part of the Homeownership Program. Applicant files will document the delivery and results of the counseling and training on an individual basis.

Awareness of and enrollment in the NHA's FSS program will be a critical component of the counseling program. However, enrollment and completing the FSS program will be conducted outside the homeownership program. Linkages will be forged between the Homeownership and FSS service providers to ensure continuity and progress feedback.

9.0 Home Sales

The sale of homeownership units will be conducted through the Authority or its designee. Home sales will only be executed to residents that have completed homeownership training and have demonstrated homeowner capability.

10.0 Protection of Non-purchasing Families

No current resident will be involuntarily displaced from the unit it lawfully occupies for the purposes of providing homeownership opportunity. For public housing participants that do not exercise their right of first refusal to purchase a homeownership unit the NHA will offer the resident a relocation package comprised of the following components:

- Provide for the payment of the actual and reasonable relocation expenses of the resident to be displaced.
- Ensure that the displaced resident is offered comparable housing.
- Provide necessary counseling for the displaced resident.
- Not transfer the unit until the resident is relocated.

- Provide incentive package to encourage renter relocation to improve the marketability of the initiative.

To meet the test of "comparable" housing, the unit offered must meet housing quality standards; be located in an area that is generally not less desirable than the location of the displaced resident's housing; and determine that the rent paid by the resident is equivalent to the rental rate paid by the resident for the unit vacated. The housing offered can be tenant- or project-based, or public housing. However, in the case of tenant based assistance the offer of comparable housing is fulfilled only upon the relocation of a resident into such housing.

Residents who lawfully occupy a homeownership unit under a Lease to Purchase contract may be relocated from a homeownership unit upon termination due to Lease to Purchase contract violation.

11.0 Sales Proceeds

Sales proceeds are funds generated as a result of payments made by purchaser for credit to the purchase price (e.g., earnest money, down payment, payments out of the proceeds of mortgage loans, and principal and interest payments under purchase money mortgages), along with any amount payable upon resale.

Our estimates indicate that we will be able to sell all 42 units within 24 months of the program approval. The sales will generate approximately $2,300,000. As we expect to fund most of the cost of establishing the homeownership program from the Capital Fund, our priority for the use of sales proceeds will be as follows:

- For purposes of ensuring the success of the NHA's Homeownership Program and to protect the interests of the homeowners. Proceeds uses include costs to establish the plan; cost associated with planning, training, and technical assistance to potential purchasers; costs to administer the program; and costs associated with non-routine maintenance/emergency loan reserve, closing, etc.

- The construction or acquisition dwellings for sale to low-income families.

- Other such public housing purposes that are approved by HUD.

12.0 Disposition Application and Replacement Housing

Homeownership transfer of public housing is exempt from disposition rules. One-for-one replacement has been repealed. However, the Authority will respond to replacement housing vouchers NOFAs should they be issued by HUD.

13.0 Administration

The envisioned administrative responsibilities under a homeownership program include the following task:

- Homeownership candidate outreach and structuring.
- Maintaining an applicant waiting list.
- Establishing and maintaining individual applicant files.
- Screening and selecting applicants.
- Affordability analysis and financing program identification.
- FSS program enrollment.
- Candidate counseling and scheduling homebuyer training.
- Maintaining homeownership housing stock status log.
- Showing home to perspective homebuyers.
- Arranging financing packages with banks.
- Assisting homebuyers with financing.
- Executing silent second promissory notes.
- Executing lease to purchase agreements.
- Inspecting lease to purchase homes.
- Maintaining lease to purchase credits and reserve deposits.
- Scheduling inspections and remedying deficiencies.
- Resolving homeowner complaints and other problems.
- Maintaining homeowner equity calculations.
- Preparing annual equity reports to homeowners
- Calculating and obtaining resale proceeds.
- Managing the maintenance/emergency reserve loan fund.
- Accounting and recordkeeping of sales proceeds.

There are additional activities that are required to administer the NHA's Homeownership Program. However, the above list does demonstrate our understanding of the level of effort required to administer such a program and the resources that will be required for its administration. We will require technical assistance to establish the procedures and standardize the operation of the program. Cost estimates for such activities in the Section 15.

Initially the NHA will use it staff in collaboration with a consultant to establish the program. We will also explore the advantages and disadvantages of establishing an affiliated Community Housing Development Organization (CHDO) to operate the homeownership program on an on-going basis. The advantages to this structure include the removal of the stigma of "public housing" homeownership and a CHDO's ability to access CDBG/HOME funds to subsidize its operating costs, and to further its homeownership capacity and jurisdiction.

14.0 Records, Accounts and Reports

The Authority is responsible for and will comply with the following records maintenance and financial accountability requirements of the Homeownership Program:

- Maintain records on the racial and ethnic-characteristics of the purchasers.
- Submit to HUD on an annual basis a Sales Report, in a format suitable to HUD, of individual homes until program completion.
- Include in regular independent audits a review of the receipt, retention, and expenditure of all sales proceeds.

15.0 Homeownership Program Budget

Description	Amount (Rounded to 000)
Homeownership Plan Preparation and Approval	$ 50,000
Program Development Technical Assistance	40,000
General Administrative and Legal Expenses (e.g., condominium association development)	200,000
Homebuyer Screening and Selection	10,000
Existing Home Appraisal and Inspection (42 units @ $300/unit)	13,000
Unit Rehabilitation (exclusive of committed Comp Grant Funding)	557,000
Modernization Contingency @ 6% of estimated cost	208,000
Pre-Sale Home Inspection	20,000
Homebuyer Counseling and Training	42,000
Title Search and Legal Costs	42,000
Housekeeping and Maintenance Training	10,000
Annual Lease to Purchase Home Inspection	25,000
Non-routine Maintenance and Emergency Loan Fund (42 existing @ $2,500)	105,000
Total Cost	$ 1,322,000
Total Per Unit Cost	$ 31,000
Per Unit Sales Price	$ 54,000
Homeownership Proceeds Per Unit	$ 36,000
Total Homeownership Proceeds	$ 946,000

Note: Property rehabilitation costs in the amount of $2,912,880 has been excluded from the homeownership budget as it is paid from Comp Grant Funds. The remaining funding in the amount of $556,600 is committed from the public housing operating fund (i.e., resident services account). The operating fund will be reimbursed upon receipt of sales proceeds.